

USACE Suppl 1
to AR 11-7

DEPARTMENT OF THE ARMY
U.S. Army Corps of Engineers
Washington, D.C. 20314-1000

CEAO
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Army Programs
INTERNAL REVIEW AND
AUDIT COMPLIANCE PROGRAM

Issue of further supplements to this regulation by subordinate commands is prohibited unless prior approval is obtained from HQUSACE (CEAO) Washington, D.C. 20314-1000. If approved supplements are issued, Major Subordinate Commands, Laboratories, and Field Operating Activities (FOA) will furnish one copy each to HQUSACE (CEAO) Washington, DC 20314-1000; District Commands will furnish required copies to appropriate MSC.

AR 11-7, 16 July 1989, is supplemented as follows:

Page 3, paragraph 1-4, Responsibilities. Add subparagraphs (a) and (b) to subparagraph e(1):

(a) Major Command QA. The Audit Office, Headquarters, US Army Corps of Engineers (HQUSACE) will perform periodic Quality Assurance (QA) reviews of each MSC and the Waterways Experiment Station (WES). At a minimum the reviews will be performed on-site once every three years with the potential for an interim review or desk evaluation based on the availability of funds and staff. The primary purposes of these reviews will be to evaluate the adequacy of program direction, supervision, and staffing; review compliance with Government Auditing Standards and prescribed policies and procedures; and furnish advice and assistance in connection with any auditing, administrative or internal problems. The checklist at

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Appendix A will be used to conduct the QA reviews. A draft report covering the review results will be issued within 60 days to the Chief, Internal Review Audit Compliance Office of the MSC or WES. The report will contain sufficient information to show purpose; scope, including the number of projects/reports examined; summary of observations; results of review for each major area covered as shown in the checklist; and recommendations. The Chief, IRAC Office will provide written comments on the report within 30 days to HQUSACE (CEAO) Washington DC 20314-1000. A final report will be issued within 30 days after receipt of comments to the commander of the MSC or WES commander/director which will include their IRAC Office comments and CEOA evaluation. If there are areas of disagreement, the MSC or WES/commander/ director will be required to submit a response to the final report setting forth the MSC or WES position on the issues in dispute. If there are still areas of disagreement, CEOA will forward the report and MSC or WES comments to the Deputy Commander, HQUSACE for final decision.

(b) Major Subordinate Command Quality Assurance Reviews. The MSC IRAC Office will perform staff surveillance over the district IRAC activities to evaluate timely and effective accomplishment of the mission; review compliance with prescribed professional audit procedures; and provide staff advice and assistance. This will be accomplished by annual on-site Quality Assurance (QA) reviews of local program management and audit work being performed and interim visits as necessary based upon local circumstances. The QA review schedule will be shown in Section 5 of the annual plan required by paragraph 3-2 below. A draft report will be issued to the district chief, IRAC Office within 60 days documenting the results of the annual QA review. The report will contain sufficient information to show purpose; scope, including the number of projects/reports examined; summary of observations; results of review for each major area covered as shown in the Checklist; and recommendations. The district chief, IRAC Office will provide written comments on the report within 30 days to the MSC IRAC Office. A final report will be issued within 30 days after receipt of comments to the district commander which will include their IRAC Office comments and the MSC evaluation. If there are areas of disagreement, the district commander will be required to submit a response to the final report setting forth the district's position on the issues in dispute. If there are still areas of disagreement, the MSC IRAC Office will forward the report and district comments to the MSC commander for final decision. When the

reply process is completed, the MSC IRAC Office will forward a copy of the final report, together with the district response and MSC commander's decision if applicable, to HQUSACE (CEAO) Washington DC 20314-1000. The QA review reports will also be used to keep the MSC Commander informed as to the effectiveness of the district IRAC programs. The QA reviews will be performed in accordance with above-procedures and therefore will not be done as part of the MSC command inspection process. The prescribed QA reviews should alleviate the need for command inspection coverage of the district IRAC activities.

Page 3, paragraph 1-4, Responsibilities. Add the following to subparagraph e(6):

The WES will provide internal review support to USACE laboratories.

Page 4, paragraph 1-6, Internal Review Concept. Add subparagraph b(4) after subparagraph b(3).

(4) Provide an independent capability to assist in resolving problems requiring limited research and quick solutions.

Page 4, paragraph 2-7, Training. Add the following:

An annual training plan should be developed for each auditor to supplement formal education and previous experience. This program should be sufficient to ensure that each auditor meets the continuing education requirements of the Government Auditing Standards. This program should utilize courses offered by the Corps; Department of the Army; other Government agencies such as the Office of Personnel Management and the Government Audit Training Institute; and nongovernment facilities. Priority will be given to USAAA training courses. It is essential that lower grade auditors receive appropriate training in fundamental audit and internal review techniques, including the preparation of review guides, development of findings, preparation of working papers, and report writing. Experience can be gained by developmental exposure during the actual performance of internal reviews as a closely supervised trainee. Such assignments should be part of a formal trainee development plan. As career development progresses, the auditor should receive training in audit management, advanced

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audit techniques, and use of microcomputers. A record should be maintained for each auditor documenting past courses by course title, length (days or hours) and completion date (month/year). Both HQUSACE and the MSC are responsible for monitoring the training accomplishments of the subordinate internal review activities. A copy of the training record for each auditor showing training completed during the previous year will be forwarded through command channels to CEA0 with the annual plan showing workload accomplished for the year.

Page 5, paragraph 2-10, Guidance. Add subparagraph f and g after subparagraph e.

f. The IRAC element will not establish accounting policy; perform quarterly imprest fund cash counts; perform contract audits; augment operational elements; or accomplish operational tasks. Examples of the latter include making detailed verifications of the accuracy and validity of documents and performing contract administration activities. The above tasks are subject to internal review evaluation if there are known or suspected problems or if they are a part of a function in which a review is being made.

g. The Chief, IRAC at all command levels is encouraged to provide consulting assistance to help managers evaluate and improve internal management controls. The auditor can advise managers on how to perform the internal management control evaluations as required by AR 11-2 but the auditor will not perform these prescribed periodic evaluations on regular basis because they are management's responsibility. The auditor should forward information to the internal management control administrator concerning known or suspected material weaknesses as identified in internal review and external audit reports. This will assist the commander in determining material weaknesses to be reported in the annual statement required by the Federal Managers Financial Integrity Act. Management is responsible for correcting material weaknesses and the validation. Validation can be accomplished by Command Inspections, staff visits, quality assurance visits, etc. IRAC should only be used to validate those weaknesses that the Commander or Deputy Commander determines to warrant such independent testing .

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph a(1):

The auditable entity file will be updated as necessary to show the areas covered by external audits and internal reviews. The

IRAC Office will review the file annually to assure that it properly identifies the organizations, programs, activities and functions subject to audit. During the annual review, the IRAC

office will conduct sufficient research to identify the major missions and projects to be accomplished by their respective districts and labs during the next year. The IRAC office will use the auditable entity file and information gathered during the annual review to prepare annual plans and to support resource requirements.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph a(2):

The Commander will sign the written request for staff input concerning possible review areas. This solicitation will also encourage staff members to request internal review assistance during the year as known or potential problem areas are identified. Suggested formats for the solicitation letter and audit suggestions are shown at Appendix B.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add subparagraphs (7) and (8) after subparagraph a(6).

(7) Directed/Suggested Internal Reviews. HQUSACE may periodically direct command-wide internal reviews of known or suspected trouble areas. Suggestions may also be made of possible review areas.

(8) USACE Deficiency Trends. HQUSACE will periodically publish a deficiency trend memorandum to alert MSC commanders of possible problem areas. Assessment factors will be provided so the Commander can readily determine whether a command weakness exists. If the commander identifies weaknesses, internal reviews should be performed to determine the underlying causes contributing to these conditions and to recommend corrective action.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph b:

Each USACE IRAC office will prepare an annual plan on a fiscal year basis in accordance with the format at Appendix C. The plan will be developed based upon high risk areas from the auditable entity file; current suggestions from functional

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managers; prior year deferred audits which are still valid; and IRAC suggestions based upon higher authority requirements, known material weaknesses, and knowledge of local areas, concerns and major activities. Internal reviews will be scheduled in both mission and support areas to the extent resources permit, with priority given to mission and high risk areas. Mission areas are defined as those functions performed by the technical staffs shown on the organization charts, e.g., Planning, Engineering, Construction, Operations, Real Estate, Contracting, Program/Project Management and Emergency Management. If the program requirements, as identified above, exceed days available, the deferred audits and estimated work-days will be listed in priority order and appended to the annual plan. The annual plan will be revised semi-annually as necessary to reflect actual work-days expended in each area during the preceding quarters and the projected workload for the remainder of the calendar year. The IRAC Office will review the projected workload with the commander and/or principal deputy semi-annually and make adjustments as necessary to reflect current command priorities.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph c:

The Chief, IRAC Office will meet with the commander and/or principal deputy commander to review and discuss the proposed annual plan prior to approval to assure that it will help the commander meet the Corps' objectives of providing quality service to our customers. After making any necessary adjustments, the annual IRAC plan will be forwarded to the commander for approval. A copy of the approved annual plan will be provided to staff elements of the command along with feedback on the disposition of their audit suggestions.

Page 6, paragraph 3-2, Guidance on Annual Internal Review and Audit Compliance Plan. Add the following to subparagraph d:

A copy of the approved annual plan for the current fiscal year and a copy of the annual plan showing accomplished versus estimated workload for the preceding year will be submitted through command channels to HQUSACE (CEAO). The MSC IRAC offices will review the district plans for the current year prior to submittal to CEAO and provide feedback to the districts if deficiencies are noted or proper procedures are not followed. The MSC IRAC offices will submit the district plans, a copy of the feedback, and the MSC IRAC plan to HQUSACE

(CEAO). CEAO will review and evaluate the current year MSC plans, along with WES's plan which is to be submitted directly to CEAO, and provide feedback, as needed, to the applicable subordinate organization. The semi-annual revisions will also be submitted through command channels to HQUSACE (CEAO). The annual plan and semi-annual revisions will be forwarded within 30 calendar days after the beginning of each fiscal year or interim six-month period.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph a:

A formal announcement memorandum will be issued prior to the entrance conference for internal audits. The announcement memorandum will communicate the fact that a review is about to begin, will contain the tentative audit objectives, and will confirm the arrangements for the entrance conference. The announcement memorandum is not required for troubleshooting or quick reaction audits requested by management. However, an entrance conference will still be held to discuss the audit plans and objectives.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph b:

Internal review survey requirements and procedures are included at Appendix D.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph d:

As a minimum, the audit guide will contain the following sections: Background, References, Objectives, and Review Areas. Under each major review area, the guide will show the specific steps required to accomplish that portion of the review. The Chief IRAC will approve the guide prior to initiation of the review. This approval will be documented on the audit guide to be included in the working paper file. The MSC auditor will evaluate the adequacy of audit guides prepared by the local IRAC office and document the results of this assessment during the annual quality assurance reviews.

Page 6, paragraph 4-1, Performing internal audits. Add subparagraphs (1) and (2) after subparagraph e:

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(1) During the performance of internal reviews, the auditor should constantly be on the alert for possibility of fraudulent or other unlawful activity. Accordingly, the auditor should determine that a system of checks and balances is in place which will disclose irregularities and improprieties. Also the audit should include specific audit steps designed to provide reasonable assurance of detecting abuse or illegal acts. When fraud or other unlawful activity is suspected, the auditor should develop all factual information using generally accepted auditing procedures but will not assume the responsibility of investigative personnel. If audit techniques and consultation with counsel do not resolve the suspicion of wrongdoing, the auditor shall prepare a letter report to the commander documenting the circumstances and related facts. The report will be discussed with the Commander, Counsel and Security and Law Enforcement Officer, with copies to the MSC auditor and CEO. The Chief, IRAC Office, should monitor the action to ensure that the matter is satisfactorily resolved. All correspondence related to the suspected fraud or other unlawful activity should be carefully protected with "FOR OFFICIAL USE ONLY" markings to avoid unnecessary disclosure.

(2) During the course of an audit, working papers will be developed in a complete and accurate manner to document work performed and to support the findings and recommendations in the audit report. Techniques and standards for working paper preparation are included at Appendix E.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph g:

Format and guidelines for preparation of standard internal review reports are included at Appendix F. In the event the audit discloses satisfactory conditions or only minor deficiencies, a letter report may be issued as shown at Appendix G.

Page 6, paragraph 4-1, Performing internal audits. Add subparagraphs (1), (2), (3), (4) and (5) after subparagraph g.

(1) The IRAC Chief will forward copies of the draft report or portions thereof to responsible operating officials for comment on the findings and recommendations. The replies to internal review reports must clearly state the operating official's position on the recommendations, i.e., concurrence and corrective actions taken or planned with target dates for implementation or nonconcurrence with reasons therefor. The Chief IRAC

will review the comments and attempt to resolve any nonconformance or inadequate replies where possible. The management comments (and audit rebuttal if necessary) will be incorporated into the final report immediately following each recommendation. If the management comments are lengthy, they may be summarized in the report and, if requested, a copy attached. The final report will then be forwarded to the commander for review and disposition in accordance with subparagraph h of the basic regulations as supplemented below.

(2) The suggested time frame for obtaining management comments is 30 days. The final report should be issued without management comments if the comments are not received within 45 days from the date of the draft report. Also, there may be other instances where it is desirable or necessary to issue a report without operating officials' comments. The reason for such action should be briefly stated in the transmittal letter to the commander. An expanded discussion of the situation should be included in the "Management Response" paragraph of the report and "Management Comments" section of the finding(s).

(3) If the report contains repeat findings, i.e., conditions similar to those previously reported within the last five years, they should be highlighted in the transmittal letter to the commander. They should also be noted in the "Management Response" and "Action on Prior Reports" sections of the report in order to highlight the need for corrective action in these areas. The major subordinate command auditor should determine that the district command is taking appropriate action on repeat findings during the annual quality assurance reviews.

(4) The potential monetary and nonmonetary benefits for each finding should be explained and summarized in the report. If there are potential monetary benefits, a schedule of such benefits should be attached to the report (Example at Appendix H).

(5) The pertinent audit report information (excluding follow-up reviews) will be transmitted via electronic mail to CEAO-I for entry into the Internal Review Audit Database (IRAD) system. This information will be furnished within ten (10) days after issuance of the final report.

(6) Upon completion of internal audits, i.e. excluding troubleshooting and follow-up reviews, the IRAC Office will send a copy of the Post Audit Survey questionnaire shown in

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Appendix I to the audited organization(s). The purpose of the questionnaire is to obtain feedback on the quality of the audit work performed to assist the Chief, IRAC Office in assessing strengths and identifying areas requiring improvement.

(7) The internal review report and related files should be retained for five years in accordance with the provisions of AR 25-400-2 (file number 11-7). Permanent working paper files may be retained as long as necessary under file number 36.

Page 6, paragraph 4-1, Performing internal audits. Add the following to subparagraph h:

The final report will be furnished to the local commander with an oral briefing or a transmittal memorandum summarizing what was reviewed, the results of the review, the management position, and the auditors' evaluation of management's response. At the time of the briefing or simultaneous with the transmittal memorandum, the IRAC office will provide a proposed memorandum for the Commander's signature advising the responsible manager(s) of the final decision on the report, i.e., the proposed corrective action is satisfactory and should be implemented or if not, the actions that should be taken to correct the problems noted in the report. A sample transmittal memorandum and action memorandum are included with the report format at Appendix F. The disposition of internal review reports must be accomplished within six months of the date of the final report.

Page 6, paragraph 4-2, Troubleshooting. Add the following:

The IRAC office may perform troubleshooting audits for management if the requests meet the criteria in paragraph 10-3, DA Internal Review and Audit Compliance Manual. These audits will be performed on an expedited basis using normal procedures, i.e., limited survey, brief review guide and documentation of work performed and conclusions. A letter may be issued directly to the requesting official with a request for comments on actions to be taken on the recommendations. The letter report would not be subject to the resolution or follow-up process. However, when accepting the requests for special audits, the Chief, IRAC Office should advise the requesting official that normal reporting procedures will be used if considered appropriate.

Add new paragraph as follows:

Page 6, paragraph 4-3, Consultant services.

The IRAC office may provide consultant services to management to assist in resolving problems requiring limited research and a quick solution. These efforts will not be considered an audit and therefore are not subject to the auditing standards and procedures. The results and advice provided will be qualified accordingly. However; in the event that limited research discloses the problem is more serious or complex than anticipated and an audit is determined necessary, the auditor will terminate the research effort and recommend to the requester that a troubleshooting or internal audit be performed in accordance with prescribed procedures. The time spent in providing consultant services to management should not exceed 10 percent of the direct auditor days available in a fiscal year. The advice and assistance provided will be documented by a memorandum to the requesting official or a memorandum for the file as appropriate.

Page 7, paragraph 5-2, Follow-up on findings and recommendations. Add the following to subparagraph a:

IRAC Offices will perform follow-up reviews of GAO, IG DoD, USAAA, CEAO-I and internal review reports addressed to their Command. The follow-up reviews will be conducted in accordance with the guidelines in basic regulation, AR 36-2 and the DA Internal Review and Audit Compliance Manual. On-site follow-up reviews will be conducted on significant findings as defined in paragraph 1-4i of AR 36-2. For findings not meeting this criteria, the follow-up reviews will be limited to desk reviews of the documentation provided by cognizant managers to verify that all agreed upon corrective actions have been completed.

Page 7, paragraph 5-2, Follow-up on findings and recommendations. Add subparagraph c after subparagraph b:

The auditor will properly document the follow-up work performed and conclusions in the audit file. If a desk review has been performed and the auditor concludes that effective corrective action has been taken on all recommendations, based upon supporting documentation in the working papers, no report is required. A follow-up report will be prepared for all on-site follow-up reviews and desk reviews where effective corrective action has not been taken on all of the recommendations. The

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report will show the original finding, recommendation and management response; the follow-up results; management comments on the follow-up results (if necessary); and the internal review evaluation of such comments (if applicable). Standards for report preparation are at Appendix J.

Page 7, paragraph 5-3, Follow-up system. Add subparagraphs (1), (2) and (3) after subparagraph a:

(1) The IRAC office will maintain a tracking and follow-up system for the reports noted in paragraph 5-2. The tracking system will include the information required by this regulation and AR 36-2. The auditor will update the system on a quarterly basis by requiring the responsible activity to provide the current status of ongoing actions and revised target dates if appropriate.

(2) The reports and recommendations will be recorded as completed when managers have provided explicit written confirmation and documentation that agreed-upon corrective actions have been completed. The initial follow-up will be performed within 120 days after completion of actions on the report in accordance with procedures in paragraph 5-2 above. When the follow-up discloses that corrective actions are inadequate, a written directive will be prepared for signature by the commander or his designee. This directive will require the responsible activity to take immediate corrective action, establish milestone dates (if necessary), and report to IRAC every 30 days until all corrective actions have been completed. The status in the tracking system will be changed for those corrective actions previously reported as complete but found to be incomplete as a result of the follow-up review.

(3) A second and last follow-up will be made upon official notification from the audited activity that all corrective actions are complete and audit recommendations have been complied with. If the second follow-up discloses that corrective actions are still inadequate, a final follow-up report will be issued to the commander. Once again the status of the incomplete corrective actions will be tracked in the system until management provides written confirmation and documentation that actions have been completed. At this time, the report and recommendation(s) will be recorded as complete with no further follow-up effort.

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Page 7, paragraph 5-3, Follow-up systems. Add the following to subparagraph c:

The IRAC office will provide quarterly reports to the commander showing the status of unimplemented audit recommendations. The MSC auditor will review the summary report during QA reviews; attempt to expedite completion of overdue corrective actions; and report excessive delays in implementing recommendations to the MSC.

FOR THE COMMANDER:



R.C. JOHNS
Colonel, Chief of Staff
Corps of Engineers

11 Appendices

- APP A - Quality Assurance Checklist
- APP B - Audit Suggestion Format
- APP C - Annual IRAC Plan Format
- APP D - Survey Procedures
- APP E - Standards for I/R Working Papers
- APP F - I/R Standard Report Format
- APP G - I/R Letter Report Format
- APP H - Potential Monetary Benefits Format
- APP I - Post Audit Survey
- APP J - Follow-up Report Format

APPENDIX A

QUALITY ASSURANCE CHECKLIST
FOR INTERNAL REVIEW AND AUDIT COMPLIANCE PROGRAM

A. Objectives:

1. To determine that professional audits are being performed in accordance with prescribed procedures and that a quality product is produced in a timely manner.
2. To determine that the internal review program is adequate and responsive to the needs of the commander.
3. To ensure that audit recommendations provide feasible solutions to problems.
4. To determine that the IRAC Office has an effective tracking and follow-up program to identify noncompliance with agreed upon audit recommendations for command.

B. Evaluation Procedures:

	YES	NO
1. Organization, Staffing and Training.		
a. Does the IRAC Office report to the Commander or Principal Deputy Commander?	___	___
b. Does the IRAC Chief have direct communication with the commander or principal deputy commander on a regular basis?	___	___
c. Is current staff at authorized level and is the staffing sufficient to accomplish mission?	___	___
d. Is current staff all fully qualified 511 auditor personnel?	___	___
e. Does the mission and functions statement accurately define the responsibilities of the IRAC Office?	___	___

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- | | YES | NO |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| f. Do the IRAC job descriptions accurately describe responsibilities of each position? | ---- | ---- |
| g. Does the job performance objectives/ individual standards adequately address the significant duties and responsibilities of the position? | _____ | _____ |
| h. Is an Individual Development Plan (IDP) prepared for each auditor and are training records maintained documenting that continuing education requirements are being met? | _____ | _____ |
| i. Are the continuing education and training (CET) requirements being met for each two year period (89-90, 91-92, 93-94, etc.) i.e., 80 hours total with at least 20 hours each year and at least 24 hours in subjects related to the government environment and to government auditing? | _____ | _____ |
| j. Does the IRAC Office reflect a professional working environment in terms of appearance and atmosphere? | _____ | _____ |
| k. Is there any evidence of external or personal impairments to independence? | _____ | _____ |
| 2. Annual Plan and Semi-Annual Updates. | | |
| a. Is an annual plan with semi-annual updates prepared in accordance with prescribed procedures? | _____ | _____ |
| b. Are audit areas solicited annually by the Commander from the staff and requests prioritized for Commander consideration? | _____ | _____ |
| c. Has an auditable entity file been developed and kept current and is it being used? | _____ | _____ |
| d. Are high risk/high payoff areas being scheduled for audit? | _____ | _____ |

- | | YES | NO |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| e. Is the annual plan well balanced with time being spent in both mission and support areas and cyclical/operating-type audits avoided? | _____ | _____ |
| f. Are other factors being considered in establishing audit priorities such as command emphasis/high visibility programs; reviews required by higher authority; newness or major changes in programs or systems; and material internal control weaknesses? | _____ | _____ |
| g. Does the annual plan contain realistic estimates of workdays required to accomplish the workload? | _____ | _____ |
| h. Is a schedule of "excess" or "unresourced" audits, listed in priority order, prepared and attached to the annual plan? | _____ | _____ |
| i. Is the annual plan discussed with and approved by the Commander; reviewed by the MSC IRAC Office, where applicable; and forwarded to HQUSACE? | _____ | _____ |
| j. Were significant variances between estimated and actual staff days adequately explained? | _____ | _____ |
| k. Were reviews scheduled but not performed in the prior year carried over to the current plan or an explanation provided for their exclusion? | _____ | _____ |
| 3. Audit Process. | | |
| a. Are audits being conducted in accordance with prescribed procedures as documented by working paper checklists? | _____ | _____ |
| b. Are in-process reviews performed to evaluate progress and quality of work at key milestone completion dates? | _____ | _____ |

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- | | YES | NO |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| c. Are the supervisory reviews documented and adequate? | _____ | _____ |
| d. Are overall audit times consistent with guidelines and time controls for the major audit segments and are the actual times versus the estimates documented? | _____ | _____ |
| 4. Reporting Process. | | |
| a. Do the reports contain all of the required elements and are they prepared in the proper format? | _____ | _____ |
| b. Do the reports contain sufficient background information to provide the reader with an adequate understanding of the audit entity, i.e., size, volume and nature of the operations reviewed? | _____ | _____ |
| c. Do the reports clearly show the objectives of the audit and the conclusion for each objective? | _____ | _____ |
| d. Does the scope and methodology paragraph show period covered by audit, when audit work was performed, extent of audit coverage, any scope limitations, and any departures from standards? | _____ | _____ |
| e. Does the scope and methodology paragraph clearly explain the techniques used to gather and analyze evidence, including methods used for selecting or analyzing samples where applicable? | _____ | _____ |
| f. Do the reports contain a statement that the audit was conducted in accordance with generally accepted government auditing standards? | _____ | _____ |
| g. Do the reports contain a discussion of the internal controls assessed and the material weaknesses noted, if any? | _____ | _____ |

	YES	NO
h. Are repeat findings clearly identified and reported to the Commander?	_____	_____
i. Are potential monetary benefits being discussed in the report and, if so, are they reasonable and fully supported?	_____	_____
j. Do the reports present all major findings and recommendations contained in the working papers?	_____	_____
k. Are the findings and recommendations adequately supported by objective evidence in the working paper file?	_____	_____
l. Are the findings of noncompliance presented in proper perspective, i.e., extent of noncompliance to number of cases examined or universe?	_____	_____
m. Do the findings include condition, criteria, cause and effect (where applicable) and are these areas fully developed?	_____	_____
n. Are the recommendations realistic and sufficiently specific to correct the deficiencies noted and to avoid similar problems from occurring in the future?	_____	_____
o. Are written management comments requested and are they received in a timely manner?	_____	_____
p. Were the management comments responsive, i.e., did they include effective corrective actions with actual or target completion dates or reasons for non-concurrence with the recommendations?	_____	_____
q. Do the reports include management's position on each recommendation and the audit evaluation/rebuttal, if necessary?	_____	_____

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	YES	NO
r. Do the reports present information in a fair, convincing, objective and clear manner?	_____	_____
s. Are the reports free of grammatical errors or misspellings which detract from their quality?	_____	_____
t. Were reports issued in a timely manner?	_____	_____
u. Are nonconcurrency adjudicated by the Commander within six months of the date of the report?	_____	_____
v. Were copies of the final report submitted to appropriate officials?	_____	_____
5. Audit Liaison and Compliance.		
a. Does the IRAC office serve as the liaison with external audit agencies, e.g. GAO, IG DoD and USAAA?	_____	_____
b. Are the Commander, MSC Audit Office and HQUSACE Audit Office kept informed of all external audit visits?	_____	_____
c. Are replies to USAAA tentative findings and recommendations forwarded to USAAA within 30 calendar days?	_____	_____
d. Are command replies to USAAA reports reviewed by IRAC offices to ensure they are adequate and complete and forwarded thru channels in a timely manner?	_____	_____
6. Tracking and Follow-up System.		
a. Has a tracking system been established to monitor implementation of corrective actions until completed?	_____	_____

- | | YES | NO |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|-------|
| b. Are quarterly reports provided to the Commander showing the status of unimplemented audit recommendations? | _____ | _____ |
| c. Does management provide written confirmation, with supporting documentation, when corrective actions have been completed? | _____ | _____ |
| d. Are on-site follow-up reviews performed for significant findings and recommendations? | _____ | _____ |
| e. Are the follow-up reviews timely and adequate to verify the effectiveness of corrective actions taken? | _____ | _____ |
| f. Do the working papers clearly document work performed and results and do they support the conclusions? | _____ | _____ |
| g. Are the follow-up reports (when required) prepared in the proper format and do they communicate the necessary information? | _____ | _____ |
| h. If the follow-up reviews show that corrective actions were inadequate, has the Commander directed the activities to take immediate corrective action on the unimplemented recommendations? | _____ | _____ |
| 7. General. | | |
| a. Are any operational-type duties being performed? | _____ | _____ |
| b. Are the auditors appointed to any boards or committees which could compromise their independence? | _____ | _____ |
| c. Is the pertinent internal review report information transmitted electronically to CEAO-I for entry into the IRAD system within 10 days? | _____ | _____ |

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	YES	NO
d. Are the semi-annual reports prepared in a correct and timely manner?	___	___
8. Division Staff Program Management (For CEO Use).		
a. Are Division annual plans prepared and do they include scheduled quality assurance reviews of district IRAC offices?	___	___
b. Do Division audit offices review and critique District annual plans and provide feedback prior to submittal to HQUSACE?	___	___
c. Do Division audit offices conduct annual on-site quality assurance reviews of District IRAC offices and make interim visits as necessary to resolve problem areas?	___	___
d. Are the quality assurance reviews in sufficient depth, based upon the checklist in Appendix A of USACE Suppl 1 to AR 11-7, to detect deficiencies and provide guidance to improve operations?	___	___
e. Do the quality assurance reports contain the information prescribed in paragraph 1-4e(1)(b) of USACE Suppl 1 to AR 11-7 and are copies provided to CEO?	___	___

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APPENDIX B

MEMORANDUM FOR: SEE DISTRIBUTION

SUBJECT: Request for FY _____ Audit Suggestions

1. The internal review function provides an important service to the District as part of our operational control system. Our intention is to establish an internal review program that is both flexible and responsive to the needs of this District. AR 11-7 states that the annual internal review program will be developed based on direction from the Commander and input received from the staff activities and other functional managers.

2. The District's Internal Review Office is in the process of preparing the FY_____ Internal Review Program and, accordingly, is soliciting input from all District activities. Please review the missions and functions of your office and identify known or potential problem areas that should be considered as possible areas for review. Matters to be considered when identifying potential reviews are: (a) level of project or program funding; (b) potential loss and risk; (c) high visibility programs; (d) newness or major changes in operations, programs, systems, or controls; (e) problem areas or internal control weaknesses noted in evaluations by managers and inspection groups; and (f) known significant audit findings at other activities having local applicability. These audit suggestions should be in the format at Enclosure 1.

3. The audit suggestions that you previously submitted but which could not be accomplished because of limited resources are listed at Enclosure 2. In responding to this memorandum, you should advise the Internal Review Office as to whether these audit suggestions are still valid and if so, their recommended priority.

4. Addressees should submit their audit suggestions or a negative response to_____ no later than_____. I encourage you to submit potential candidates for internal audits and troubleshooting reviews, both now and as the need arises during the next year.

Encl

Commander

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AUDIT SUGGESTIONS

1. Title/Subject.

2. Objective of Proposed Audit. The objective should tell the purpose of the audit.

3. Basis for Suggestion: Briefly describe the rationale for the proposed audit. What are the major issues and resource implications:

4. Anticipated Benefits: What benefits are projected if the audit is conducted:

5. Suggested Time Frame/Quarter for audit and recommended priority:

6. Point of Contact: Name, number, and office symbol of knowledgeable individual(s) who can provide additional information.

7. Other Comments/Remarks:

ANNUAL IRAC PLAN FORMAT
(AUDIT/INTERNAL REVIEW OFFICE)
INTERNAL REVIEW AND AUDIT COMPLIANCE PLAN
FY _____ PERIOD ENDING _____

ESTIMATED WORK-DAYS AVAILABLE _____ ACTUAL WORK-DAYS AVAILABLE _____
 LESS: ESTIMATED HOLIDAYS _____ LESS: ACTUAL HOLIDAYS _____
 SICK LEAVE _____ SICK LEAVE _____
 ANNUAL LEAVE _____ ANNUAL LEAVE _____
 ADMIN. LEAVE _____ ADMIN. LEAVE _____
 ESTIMATED NET WORK-DAYS AVAILABLE * _____ ACTUAL NET WORK DAYS AVAILABLE ** _____

ESTIMATED NET WORK-DAYS AVAILABLE

ACTUAL NET WORK-DAYS EXPENDED

TITLE	ESTIMATED NET WORK-DAYS AVAILABLE				TOTAL	ACTUAL NET WORK-DAYS EXPENDED				TOTAL
	1ST QTR	2ND QTR	3RD QTR	4TH QTR		1ST QTR	2ND QTR	3RD QTR	4TH QTR	
1. Internal Reviews: *** A. Mission Areas B. Support Areas (1) Financial Management Areas (2) Other Support Areas C. Trouble Shooting										
2. Compliance Services: A. Follow-up - GAO, DOD, AAA Internal Review, Etc. B. Other Compliance Services GAO, DOD, AAA, Etc.										
3. Consultant Services: A. Internal Controls B. Other										
4. Training A. Formal B. OJT										
5. Supervision, Administrative, Personnel, Etc.										
Net Work-Days Avail./Expended										

Prepared By: _____ Name and Title
Approved: _____ Commanding Officer

- * AT THE BEGINNING OF THE FISCAL YEAR, SHOW TOTAL ESTIMATED NET WORKING DAYS AVAILABLE AFTER DEDUCTIONS FOR LEAVE AND HOLIDAYS, I.E., WORK-DAYS AVAILABLE X NUMBER OF AUDITORS, FOR EACH QUARTER AND FISCAL YEAR.
- ** AT THE END OF EACH PERIOD AND THE FISCAL YEAR, SHOW ACTUAL WORK-DAYS EXPENDED IN EACH AREA FOR THE QUARTER AND TOTAL YEAR-TO-DATE.
- *** AT THE BEGINNING OF THE FISCAL YEAR, LIST AND PRIORITIZE EACH SPECIFIC REVIEW PROGRAMMED FOR ACCOMPLISHMENT AND SHOW ESTIMATED WORK-DAYS BY QUARTER AND FISCAL YEAR. MISSION AREAS ARE CONSIDERED TO BE THE TECHNICAL STAFFS SHOWN ON THE ORGANIZATION CHARTS. AT THE END OF THE FISCAL YEAR, SHOW SPECIFIC REVIEWS ACCOMPLISHED AND ACTUAL WORK-DAYS EXPENDED ON EACH REVIEW.

NOTES:

- (1) IF PROGRAM REQUIREMENTS EXCEED WORK-DAYS AVAILABLE, LIST THE ITEMS OR AREAS REQUIRING REVIEW AND ESTIMATED WORK-DAYS IN PRIORITY ORDER ON A SEPARATE SCHEDULE UNDER THE HEADING "INTERNAL REVIEW PROGRAM REQUIREMENTS IN EXCESS OF NET WORK-DAYS AVAILABLE" AND APPEND TO ANNUAL PLAN.
- (2) ANY REQUIRED NARRATIVE OR EXPLANATIONS WILL BE SHOWN AS FOOTNOTES TO THE ANNUAL PLAN.

(3) Auditors Assigned:

Name _____	Grade _____
------------	-------------

If Position is vacant, so indicate.

APPENDIX D

INTERNAL REVIEW SURVEY REQUIREMENTS
AND PROCEDURES

1. General. A survey should be performed as the initial phase for all reviews. The extent of survey effort will vary based upon circumstances and the type of review. A survey for a troubleshooting or quick-reaction review may be limited to efforts needed (i) to obtain a working knowledge of the organization, program or activity to be reviewed and (ii) to develop a review guide showing how the objective(s) will be accomplished. A complete survey, as described below, will normally be performed for internal audits.

2. Survey Requirements. During the survey the auditor should become familiar with the organization and functions of the activity under review; gain-sufficient knowledge to identify important issues and potential problem areas; determine if further audit work is needed; and if so, identify the primary audit objectives and design an audit approach to effectively accomplish the objectives. Suggested survey techniques and procedures are shown on Pages D-3 and D-4. The survey work should be documented in accordance with prescribed procedures. As soon as there is sufficient evidence to indicate a problem (condition) and some indication of its cause, survey work should stop in that area. Each problem should be documented on a lead sheet (Page D-5 and ranked in priority sequence). A decision will then be made on whether to proceed with the review and if so, which areas to cover during the review. The lead sheets should be the basis for the audit objectives and development of the review guide. If the survey discloses that further review work is not warranted, the auditor will report the survey results to the commander by means of a letter report prepared in accordance with the format at Appendix G.

3. Internal Management Controls. The auditor should normally review and evaluate applicable internal management control systems during every survey and/or audit. Additional guidance is furnished as follows:

a. When identifying pertinent regulations the auditor should also determine whether applicable internal management control checklist(s) for the functional area under review have been published in the DA 11 series of circulars. If so, the auditor should verify whether management personnel have

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completed the checklist assessing internal management controls within their area of responsibility. The auditor should also use pertinent checklists in evaluating internal management controls during the audit.

b. The survey should include an identification of the transaction cycles and possible threats for the program or function under review and the necessary internal management controls within each cycle. The auditor should then determine if the controls are in place and test and evaluate their effectiveness. These latter steps are necessary to determine the extent to which the auditor can rely on the internal management control system during the planning and performance of the audit.

c. The Government Auditing Standards published by the Comptroller General (Yellow Book) require that the auditor obtain a complete understanding of the internal management control structure for financial audits or document why a more limited review was performed. The field work and reporting standards start on pages 4-10 and 5-4 of the "Yellow Book". The Government Auditing Standards for performance audits require that an assessment be made of applicable internal management controls when necessary to satisfy the audit objectives. The field work and reporting standards start on pages 6-21 and 7-7 of the "Yellow Book".

INTERNAL REVIEW
Survey Techniques

- Review activity's mission and functions statement and applicable policies, directives and standard operating procedures.
- Review previous management studies, internal and external audit reports, and other reports applicable to the area being surveyed.
 - . Review report coverage.
 - . If applicable, obtain copies of the program and internal control related working papers.
- Obtain organization charts and position descriptions. Determine working relationships among functional elements and their interfacing organizations.
- Contact organization officials to accomplish following:
 - . Obtain briefing on mission and functions.
 - . Obtain data on size and scope of activity.
 - . Develop understanding of organizational operations and procedures, including automated systems.
 - . Determine if spans of supervisory control permit adequate direction of work.
 - . Solicit problem areas or audit suggestions from management.
 - . Compare procedures described to written standard operating procedures for consistency.
- Obtain index or listing of activity's management reports to identify what information is available and how managers monitor their operations.
- Perform on-site observation of operating methods and procedures.

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- Determine whether internal control checklists have been published and completed by management. If so, evaluate adequacy of management testing of internal controls.
- If checklists are not available, identify transaction cycles and necessary internal controls for each cycle.
- Verify that officer evaluation reports and civilian performance standards of appropriate officials reflect internal control responsibilities, including resolution and implementation of audit findings.
- Prepare narrative description and/or flowchart of procedures followed and document(s) processed. Identify and list possible threats including the in-place controls for such threats.
- Perform limited test of transactions to evaluate compliance with prescribed policies and procedures and effectiveness of existing internal controls.
- When computer-processed data will be an important part of the audit and the data's reliability is crucial to accomplishing the audit objectives, the auditor should test the data for reliability.
- Prepare lead sheets for each identified potential problem area.
- Determine the universe, scope and materiality of each potential audit area.
- Summarize survey results and "go, no-go" decision. The basis for a "no-go" decision should be clearly explained.
- If decision is to continue, document need to proceed into the verification phase and establish specific review objectives.

AUDIT LEAD WORKSHEET

Name of Audit _____

Functional Area _____

Potential Finding (Condition): _____

Possible Cause: _____

Possible Effect: _____

Probable Recommendation: _____

Regulatory Guidance (Criteria:) _____

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Date: _____ Preparer: _____

Reviewer's Guidance: _____

Date: _____ Reviewer: _____

APPENDIX E

STANDARDS FOR INTERNAL REVIEW WORKING PAPERS

1. Purpose. This Appendix outlines general principles and criteria for preparing internal review working papers. It also includes criteria for indexing and filing the internal review working papers.

2. Requirements.

a. Documentation of Review Work. The auditor will prepare working papers which clearly show how each review area and step was accomplished. The individual working papers should document purpose, source of information, and details of audit. When a series of working papers are developed for an audit step, the information will be summarized in one of the papers. Summary working papers will be prepared for each major audit segment, organized as follows:

(1) Purpose - Brief statement of what the auditor intended to accomplish by performing the review step(s).

(2) Scope - Description of how far the auditor went in performing the review step(s), e.g. discussions with responsible officials; selectively testing transactions (indicate volume of transactions involved, the number examined, and why these transactions were selected); period covered by the auditor's review, etc.

(3) Work Performed/Results - Narrative with supporting schedules as necessary to show what the auditor did to accomplish objectives and what the auditor found during the review. The information in this section should be factual in nature.

(4) Conclusions - Audit evaluation of area reviewed based upon the results (should tie in to purpose). If deficiencies are noted, this section should include information to support potential finding, such as cause and effect. This section should also document potential monetary or nonmonetary benefits.

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b. Documentation of Findings. Upon completion of the summary working papers, the auditor will determine if there are any reportable findings. If so, the auditor will prepare a separate working paper for each finding documenting the condition, criteria, cause, effect and recommendations with the understanding that cause and effect are optional for compliance objectives (suggested format is shown on Page E-4).

c. Notes on Conferences. The results of each important conference with activity officials, including entrance and exit conferences, should be recorded in the working papers. The record should include all pertinent facts, such as the date, time, place, attendees and a summary of the key areas discussed. It is also critical to document interviews during the survey and examination phases, since this information will be used in planning, performing and reporting on the audit. Each interview will be documented showing date, location, personnel involved, purpose and details of interview. The details section should show the key questions asked and a summary of the responses to each question.

d. Time Records. Each working paper file will contain a record of time expended on the review. This will be in sufficient detail-to serve as a basis for scheduling and planning subsequent reviews and for evaluating internal review performance.

e. Indexing System. The indexing system shown on pages E-11 thru E-16 will be used by IRAC offices to number and arrange the working papers for internal reviews. This system will also be used to the extent possible for follow-up review working papers but may be modified as necessary based upon nature and extent of follow-up work performed.

f. Supervisory Reviews. Reviews by supervisory auditors from all USACE levels will be documented in the working paper files. The district IRAC chief will, as a minimum, prepare a review sheet for inclusion at the front of the working paper package and initial all summary sheets. The major subordinate command and CEAO reviews will also be documented by use of a review sheet. A sample review sheet is shown on pages E-5 thru E-10.

3. Responsibilities.

a. Staff Auditors are responsible for ensuring that the working papers are complete, accurate, clear, understandable, legible, neat, logically organized per local guidance, and contain only required material.

b. District Chief is responsible for ensuring that standards for working paper preparation are met and that there is adequate support for the auditor's conclusions and recommendations. Implementing guidelines must be communicated to subordinates and in-process reviews made to check compliance. A final review is to be made and documented by a review sheet (ref. para. 2f) when the audit is completed.

c. Major Subordinate Command Chief is responsible for establishing uniform guidance and reviewing the working paper files during quality assurance visits. The reviews of working papers should be sufficient to form an opinion on their adequacy, professionalism, and compliance with governing regulations, policies and procedures. The District working paper files will be documented to show the major subordinate command review. Audit review guides prepared by the District Chief will be reviewed "after-the-fact" for adequacy.

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DEVELOPMENT OF FINDING ._____.

CONDITION: (What Is the Situation That Exists)

CRITERIA: (What Are the Requirements or Expectations)

CAUSE : (Why Did the Condition Occur)

EFFECT : (What Did or Could Result)

RECOMMENDATION(s): (Actions needed to correct immediate problem and to improve procedures and controls to avoid recurrence of the problem in the future)

REVIEW SHEET

_____ District

REVIEWER'S NAME AUDIT OF: DATE OF REVIEW:

POSITION:

_____ PAGE OF PAGES

WORKPAPER REFERENCE	REVIEWER'S COMMENT	AUDITOR'S ACTION
------------------------	--------------------	---------------------

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

REVIEWER'S STATEMENT ON POST REVIEW ACTIONS TAKEN BY AUDITORS:
All actions required of auditor by above comments have been
satisfactory completed.

_____ _____ _____
REVIEWER POSITION DATE

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WORKING PAPER CHECKLIST

	YES	NO
A. FILE (EXTERIOR) - IS THE FILE PROPERLY IDENTIFIED TO INCLUDE:		
1. Title of Audit?	___	___
2. Audit Assignment Number?	___	___
3. Functional Area or Category code?	___	___
4. File Number?	___	___
B. File (INTERIOR):		
1. GENERAL :		
a. Are the files organized in accordance with the Corps' standard indexing system?	___	___
b. Are in-process supervisory reviews performed and documented in file?	___	___
c. Are the summary working papers approved by the IRAC Chief?	___	___
2. CONTENTS - DOES THE FILE INCLUDE:		
a. Reviewers' Comments?	___	___
b. Table of Contents?	___	___
c. Draft Report?	___	___
d. Audit Guide (Approved by IRAC Chief)?	___	___
e. Correspondence, memoranda, and documentation of entrance/exit conferences, in-process reviews, and discussions with audited personnel?	___	___
f. Survey plan and working papers?	___	___

- | | YES | NO |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|-----|
| g. Summary and detailed working papers for each audit segment? | ___ | ___ |
| h. Time records? | ___ | ___ |
| 3. SURVEY : | | |
| a. Was survey performed and documented? | ___ | ___ |
| b. Did auditors obtain copies of mission and function statements, organization charts, policies, directives and SOPs to understand the mission and goals of the organization? | ___ | ___ |
| c. Did auditors determine whether other internal reviews or external audits had been performed in the area being reviewed? | ___ | ___ |
| d. Were discussions held with activity personnel to identify responsibilities and obtain their concerns about organization operations? | ___ | ___ |
| e. Did auditors identify available records and management reports of the audited activity? | ___ | ___ |
| f. Did auditors obtain copies of existing internal management control checklists? | ___ | ___ |
| g. Were internal management controls documented and evaluated? | ___ | ___ |
| h. Were limited tests performed of transactions and computer-processed data when necessary to evaluate compliance with procedures and reliability of data? | ___ | ___ |
| i. Was survey work performed in sufficient depth for auditors to become familiar with the activities and controls to be audited and to identify areas for audit emphasis? | ___ | ___ |

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	YES	NO
j. Was a summary working paper prepared showing purpose, scope, work performed, results and conclusions?	_____	_____
k. Does the Conclusions section include "Go/No-Go" decision and if "Go" the review objectives supported by appropriate rationale?	_____	_____
l. Were the survey results discussed with the auditee?	_____	_____
4. AUDIT GUIDE:		
a. Is the audit guide organized as follows: Background, References, Objectives and Review Areas?	_____	_____
b. For each review area (objective or sub-objective), does the audit guide show the steps to be performed to accomplish that portion of the review?	_____	_____
c. Is the nature and scope of work to be performed sufficient to attain the stated audit objectives?	_____	_____
d. Does the audit guide show the projected time frames and staff days to accomplish each objective?	_____	_____
e. Was the audit guide approved by the IRAC Chief prior to initiation of the audit?	_____	_____
5. AUDIT WORKING PAPERS:		
a. Was audit work performed sufficient to accomplish objectives?	_____	_____
b. Did auditors obtain sufficient, competent and relevant evidence to support conclusions, findings, and recommendations?	_____	_____

	YES	NO
c. Did auditors test adherence to identified pertinent laws and regulations?	___	___
d. Did auditors perform adequate tests to identify potential fraud, waste or abuse?	___	___
e. Do working papers meet the following general guidelines:		
(1) Complete and accurate?	___	___
(2) Clear and understandable?	___	___
(3) Neat and legible?	___	___
f. Does each individual working paper show purpose, source of data and details of audit?	___	___
g. Were summary working papers prepared for each objective or sub-objective?	___	___
h. Do the summary working papers show purpose, scope, work performed, results and conclusions?	___	___
i. Were the following steps performed in developing a finding:		
(1) Identifying the condition as measured against acceptable criteria.	___	___
(2) Identifying the causes of the condition (when required).	___	___
(3) Determining whether the condition is isolated or widespread.	___	___
(4) Determining the effects or significance of the condition (when required).	___	___
(5) Identifying lines of authority and responsibility.	___	___

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	YES	NO
(6) Identifying and resolving legal questions.	_____	_____
j. Was each finding documented in the working papers?	_____	_____
k. Are monetary benefit analyses being performed and documented for findings and recommendations?	_____	_____
6. CROSS-REFERENCING: As a minimum, are the items in the following list referenced as appropriate:		
a. Working papers to each other?	_____	_____
b. Working papers to audit guide?	_____	_____
c. Audit guide to working papers?	_____	_____
d. Summary sheets to working papers?	_____	_____
e. Summary sheets to draft report?	_____	_____
f. Significant revisions of draft report to supporting working papers?	_____	_____
g. Significant changes between draft and final report to supporting working papers?	_____	_____

OTHER REMARKS:

PREPARED BY:

NAME : _____

TITLE _____

DATE _____

CORPS OF ENGINEERS INDEXING SYSTEM
FOR INTERNAL REVIEW WORKING PAPERS

1. A uniform, logical method of filing and arranging audit working papers is necessary to ensure maximum use of the material, and to facilitate the control and review of audit files and preparation of the audit report. Although a variety of audit types are encountered, the system described below allows flexibility to meet the needs of most audits, and provides the degree of uniformity which is desirable for review and control purposes.

2. The indexing system is designed to follow the chronological sequence of execution of an audit and is adaptable to both single location and multi-location audits. Thus the survey process working papers are filed before the audit report and audit working papers. If there is more than one audit location, location 1 is filed before location 2, etc. If there is a summary report, it is filed after locations 1, 2, etc. Major files will be numbered as follows:

- File I - Includes:
- A. Master Index
 - B. Description of the Indexing Plan
 - C. Announcement Memorandum
 - D. Survey Guide and Time Control
 - E. Summary of Survey Results
 - F. Audit Lead Sheets
 - G. Documentation of Go/No Go Decision
 - H. Survey Working Papers

Survey working papers will be numbered to correspond with survey steps. The working papers for Survey Step 1 will be numbered H-1. If more than one page is required for survey step, use $\frac{H-1}{1 \text{ of } 3}$, $\frac{H-1}{2 \text{ of } 3}$, etc. If more than one subordinate

command is involved during the survey, then follow the multi-location guidance in paragraph 3.

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File II - Includes: A. Draft Audit Report (cross referenced)
B. Management Comments
c. Final Audit Report (cross referenced if different from draft)
D. Audit Guide (cross referenced) and Audit Time Control
E. Correspondence and Conference Notes

File III - Includes: Audit Working Papers - Objective 1

File IV - Includes: Audit Working Papers - Objective 2, and so on.

3. A three digit alpha code should be used to designate the organization if more than one location is involved in the audit. For example, if the Southwestern Division AO performed a multi-location audit, SWG-II would include the Audit Guide etc. for Galveston District, SWA-II would include the Audit Guide etc. for Albuquerque and so on. (If the audit is a single location audit, omit the alpha code since the location will be shown on the folder label.)

4. If more than one folder is needed for a file, number the folders thus: File II, 1 of 3; File II, 2 of 3, etc.

5. The first folder of each major file after File II should include an index titled "Table of Contents". The working papers and material contained in File III and higher will be indexed as follows:

(Table of Contents)

- A. Comments of Working Paper Reviewers.
- B. Summary of Audit Results.
- c. Draft Finding and Recommendations.
- D. Audit Guide Segment for Objective _____.
- E. Audit Working Papers

The audit working papers will be numbered to correspond with each step of each objective. Thus the working paper documenting audit work for Audit Step 1 on Objective 1 would be indexed E-1 (the File would be numbered File III). If an audit step is complex and includes sub-steps, number the working papers E-1a, E-1b and so on for sub-steps 1a, 1b, etc. as necessary. If more than one page is required for an audit step, number the pages E-1, E-1, etc.

1 of 3 2 of 3

6. If a file, Table of Contents item, or working paper item is not used, the Index will be annotated "Not Used".

7. The Index number will be recorded in the center at the bottom of the page.

8. Examples A, B, and C provide Pro Forma Tables of Contents for Files I, 11, III, etc.

9. When the working papers are cross-referenced to the audit guide, audit report, etc., the annotation will include both the file number and working paper index number.

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EXAMPLE A

TABLE OF CONTENTS - FILE I

	<u>W/P REF</u>
Master Index	A
Description of the Indexing Plan	B
Announcement Letter	C
Survey Guide and Time Control	D
Summary of Survey Results	E
Audit Lead Sheets	F
Documentation of Go/No Go Decision	G
Survey Working Papers	H
Working Paper Title	H-1
Working Paper Title	H-2
Working Paper Title	H-3
Working Paper Title	H-4

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EXAMPLE B

TABLE OF CONTENTS - FILE II

	<u>W/P REF</u>
Draft Audit Report	A
Management Comments	B
Final Audit Report	C
Audit Guide and Audit Time Control	D
Correspondence and Conference notes	E

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EXAMPLE C

TABLE OF CONTENTS - FILES III, IV, V, ETC.

	<u>W/P REF</u>
Comments of Working Paper Reviewers	A
Summary of Audit Results	B
Draft Finding and Recommendations	C
Audit Segment For Objective_____	D
Audit Working Papers	E
Working Paper Title	E-1
Working Paper Title	E-2
Working Paper Title	E-3
Working Paper Title	E-4

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APPENDIX F

INTERNAL REVIEW REPORT
STANDARD FORMAT

LETTERHEAD

Office Symbol

Date

MEMORANDUM FOR: Commander, U.S. Army Engineer District,

SUBJECT: Audit Report No. _____, Review of the
Architect-Engineer Responsibility Management Program

1. This is our report on the subject audit. Part I of the report shows the audit objectives, our conclusions, and general information on the audit. Part II contains the findings, recommendations and management comments.
2. We appreciate the cooperation and assistance provided by _____, _____, and _____
Division personnel during the performance of this audit.

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

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AUDIT REPORT NO _____

REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

TABLE OF CONTENTS

	<u>Page</u>
PART I - SUMMARY	
INTRODUCTION :	
Audit Entity	1
Objectives.....	1
OBSERVATIONS AND CONCLUSIONS.....	1
MANAGEMENT RESPONSE.....	1
AUDIT SCOPE AND METHODOLOGY.....	1
AUDITING STANDARDS.....	2
INTERNAL CONTROLS.....	2
ACTION ON PRIOR REPORTS.....	2
POTENTIAL MONETARY AND OTHER BENEFITS.....	2
PART II - FINDINGS, RECOMMENDATIONS AND MANAGEMENT COMMENTS	
A Accuracy of Reason Codes.....	3
B Timeliness of Processing Claims.....	5
C Calculation of Damages.....	6
D Internal Controls.....	7

INTERNAL REVIEW OFFICE

REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

Report No. _____

Date

SUMMARY

1. INTRODUCTION.

a. Audit Entity. This section will describe the organization, program, system or area that was audited. It will include information on the size, volume and nature of operations of the audit entity to provide a perspective on the significance of the audit findings and conclusions.

b. Objectives. Normally, there is an overall objective and a series of specific objectives which are related to the overall objective.

2. OBSERVATIONS AND CONCLUSIONS. The report shall contain a specific conclusion on each of the stated audit objectives, including positive comments when appropriate. In those cases where a finding exists, the applicable conclusion paragraph will also summarize the recommendations and reference the detailed finding.

3. MANAGEMENT RESPONSE. A summary of the operating official's responses to the conclusions cited in paragraph 2 should be included in the report.

4. AUDIT SCOPE AND METHODOLOGY. The scope section shall tell the reader what the auditors did or did not do. It should also show when the audit was performed and the period covered by the audit. The methodology section should explain the techniques used by the auditor to gather and analyze evidence. It should identify any assumptions made in conducting the audit and describe any comparative techniques applied and measures and criteria used to assess performance. If statistical sampling was used, it should explain the methods used for selecting or analyzing samples.

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5. AUDITING STANDARDS. The report shall contain a statement that "the audit was made in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, Department of Defense, and accordingly, included such tests of the internal controls as considered necessary."

6. INTERNAL CONTROLS. Each report should identify the significant internal controls that were assessed and any significant weaknesses found during the audit.

7. ACTION ON PRIOR REPORTS. Each report shall include a summary section that evaluates corrective actions taken by management in response to recommendations in prior audit reports (where applicable).

8. POTENTIAL MONETARY AND OTHER BENEFITS. This section should be a summary of the potential monetary and nonmonetary benefits (Schedule of potential monetary benefits will be attached to the report, if applicable).

AUDIT REPORT NO ._____.

FINDING, RECOMMENDATIONS AND MANAGEMENT COMMENTS

A - ACCURACY OF REASON CODES

FINDING. Paragraph setting forth condition, cause and effect.

DISCUSSION.

This section should contain sufficient information to promote a clear understanding of the matters reported and to provide a convincing, but fair, presentation in proper perspective. It should set forth the evaluation criteria used by the auditor and the factual evidence found during the examination. A comparison of the factual results with appropriate evaluation criteria should lead to a clear and accurate statement of the condition. Also, this section should include the auditor's evaluation of the cause of an unsatisfactory condition. Finally this section should show the effect, i.e., the extent of risk inherent in continuing a deficient procedure, practice or control. The significance of a condition is usually judged by its effect. Use of headings and sub-headings in bold type is encouraged to properly organize the information and make the report easier to read and understand.

RECOMMENDATIONS AND MANAGEMENT COMMENTS.

A-1. The report shall contain specific and realistic recommendations addressed to the responsible offices to correct problem areas noted during the audit. The relationship between the audit recommendation and the underlying cause of the condition should be clear and logical. The recommendations should address short-term solutions to correct the immediate problem and long-range solutions to improve procedures and controls to avoid recurrence of the problem in the future. A recommendation merely to comply with regulations or laws shall not be made. Instead, the auditor shall recommend specific actions needed to cause compliance or if appropriate that the regulations or laws be changed.

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MANAGEMENT COMMENTS. Pertinent views of responsible management officials concerning the auditor's findings, conclusions and recommendations shall be incorporated into the audit report.

AUDIT POSITION. (If applicable). This section will be included if the auditor disagrees with management's views on the audit recommendations or considers their comments to be non-responsive. The auditor shall state the reason for rejecting management's views and comments in such a way as to convince an independent third party of the correctness of the auditor's position.

A-2. Same as indicated for A-1.

Additional Findings, Recommendations, and Management comments will be alphabetically numbered (i.e. B, C, D,) and in the same format.

EXAMPLE OF
TRANSMITTAL MEMORANDUM

Office Symbol

Date

MEMORANDUM FOR (Commander)

SUBJECT: Resolution of Audit Report No. _____, Review of
the Architect-Engineer Responsibility Management Program - FOR
SIGNATURE

1. PURPOSE. To obtain command decision on action to be taken
on subject report (copy of report at TAB B).

2. RECOMMENDATION. That the Commander sign the memorandum at
TAB A directing the _____, _____, and _____
Divisions to take corrective actions as indicated in the
memorandum.

3. DISCUSSION.

a. On _____ the Internal Review Office issued a
report on the Architect-Engineer Responsibility Management
Program (AERMP) in the district. The report contains four
findings as follows:

(1) FAR A - Accuracy of Reason Codes. District
officials were not identifying and documenting the primary
reason for contract modifications or prorating related costs in
those instances when multiple reasons were cited for the pro-
posed change orders. Consequently, if Design Deficiency was
one of the reasons, the total amount of the proposed modifica-
tion was recorded as construction cost growth attributable to
A-E design errors and/or omissions.

(2) FAR B - Timeliness of Processing Claims. When
potential A-E liability was determined, the time required to
obtain recovery of damages was excessive. The District did not
implement effective time standards or establish appropriate
suspense files for use in monitoring progress achieved on
active A-E liability cases. We reviewed five A-E liability
cases settled during FYs 1991 and 1992 and found that it took
an average of 2.4 years to resolve a case.

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(3) FAR C - Calculation of Damages. The initial damage assessments, which were presented to the A-E firms upon issuance of the Demand Letters, were not updated to include administrative costs incurred between issuance of the Demand Letters and final settlement of the cases. Also, the documentation of administrative costs related to the pursuit of A-E liability cases was inadequate.

(4) FAR D - Internal Controls. The District needs to strengthen practices and procedures for (i) documentation of supervisory review and approval of A-E liability determinations; (ii) recording of AERMP investigations and the sequence of events; and (iii) maintenance of official AERMP files.

b. The report contains eight recommendations to improve the above areas (Recommendations A-1, B-1, B-2, C-1, C-2, D-1, D-2 and D-3). The responsible management officials have concurred with Recommendations A-1, B-1, B-2, D-1 and D-3 and have indicated that appropriate corrective actions will be taken. They have nonconcurred with Recommendations C-1, C-2 and D-2 as follows:

(1) Recommendation C-1 is to capture all technical administrative costs incurred to pursue recovery of A-E liability damages. The procedures should include instructions to footnote the damage computations to show source of data, and to update the damage computations at time of settlement. This recommendation is based on HQUSACE guidance issued in December 1989 which states that administrative costs are "valid additional costs" that the Government has incurred as a result of A-E deficiencies. It further states that "the original demand amount should be modified if administrative costs increase significantly during prosecution of a case." The _____ Division has nonconcurred with the recommendation and states that the Command's current practice of limiting administrative damages to those sustained up to issuance of a demand letter is supported by the District Counsel. The comments obtained from District Counsel state that the Government is not entitled to recover all Government costs in pursuing A-E liability cases. The true rule would be that the Government should pursue all

costs proximately caused by the negligent act or omission. The proximately caused damages are generally those immediately following the negligent act. The _____ Division states that they have discussed their position with HQUSACE and have forwarded a copy of District Counsel's comments for HQUSACE consideration. However, this does not satisfactorily resolve the issue. Therefore, in the memorandum at TAB A, we are proposing that you direct the _____ Division to prepare a letter to HQUSACE, for your signature, setting forth the District's procedures for computing damages and requesting HQUSACE concurrence or suggested changes. Upon receipt of HQUSACE response, the _____ Division will be required to submit a final position paper on this recommendation for your approval. In the meantime, the _____ Division will proceed to implement the first part of the recommendation, i.e., to establish procedures to capture and record all costs incurred to pursue an A-E liability case and to footnote damage computations to show source of data contained therein.

(2) Recommendation C-2 is to include appropriate wording in Demand Letters to the effect that computed damages presented therein are preliminary costs which will be modified to include all related administrative costs and accrued interest incurred at time of settlement. The _____ Division has nonconcurred for the reasons stated in response to Recommendation C-1. However, they did indicate that they will document all claimed administrative costs to support the number of administrative hours assessed to an A-E firm. The proposed action to resolve Recommendation C-1 will also satisfy the need to resolve this recommendation.

(3) Recommendation D-2 is to document supervisory review and approval of the initial AERC determinations and, if necessary, revise the signature blocks on SPK Form 84 to provide for appropriate documentation of the higher level review. The _____ Division has nonconcurred that any corrective action is necessary on the basis that the recommended prosecutes are already in place. However, their comments do not adequately address the issue that the review and approval process was not documented on the SPK Forms 84 included in our audit sample. Therefore, in the memorandum at TAB A, the following actions are being required: (i) the existing prosecutes and instructions will be reviewed to assure that they are clear and adequate and (ii) the _____ Division will review the completed SPK Forms 84 in the future to assure that the necessary signatures are included on the form. If the IRAC

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Office follow-up review discloses continued lack of proper documentation of supervisory review and approval of the initial AERC determinations, further corrective action will be required at that time.

4. COORDINATION.

_____	Div.	CONCUR/NONCONCOUR	_____	(Name)	_____	(Date)
_____	Div.	CONCUR/NONCONCOUR	_____	(Name)	_____	(Date)
_____	Div.	CONCUR/NONCONCOUR	_____	(Name)	_____	(Date)

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

EXAMPLE OF ACTION MEMORANDUM

Office Symbol

Date

MEMORANDUM FOR _____ Div.
_____ Div.
_____ Div.

SUBJECT: Resolution of Audit Report No. _____, Review of the Architect-Engineer Responsibility Management Program.

I have reviewed the subject report and made the following determinations regarding action to be taken on the recommendations as referenced below:

a. Recommendations A-1, B-1, B-2, D-1 and D-3. The management comments are responsive and the proposed corrective actions should be implemented as indicated therein.

b. Recommendations C-1 and C-2. The management comments do not adequately address the issue of potential noncompliance with HQUSACE policy for computation of damages resulting from identified A-E liability. Therefore, the _____ Division will prepare a letter to HQUSACE, for my signature, setting forth the District's procedures for computing damages and requesting HQUSACE concurrence or suggested changes. Upon receipt of the HQUSACE response, the _____ Division will submit a final coordinated position paper on these recommendations for my approval. In the meantime, the _____ Division will proceed to implement the first part of Recommendation C-1, i.e., to establish procedures to capture and record all costs incurred to pursue an A-E liability case and to footnote damage computations to show source of data contained therein.

c. Recommendation D-2. The management comments do not adequately address the issue of apparent non-compliance with prescribed procedures based upon the audit results. Therefore the following actions will be taken to assure that A-E liability determinations receive proper supervisory review and

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approval: (i) the existing procedures and instructions will be reviewed to assure that they are clear and adequate and (ii) the _____ Division will review the completed SPK Forms 84

in the future to assure that the necessary signatures are included on the forms. If the IRAC Office follow-up review discloses continued lack of proper documentation of supervisory review and approval of the initial AERC determinations, further corrective action will be required at that time.

Commander

APPENDIX G
LETTER REPORT FORMAT
LETTERHEAD

Office Symbol

Date

MEMORANDUM FOR:

SUBJECT: Audit Report No. _____, Review of Administration
of the Imprest Fund

1. INTRODUCTION.

a. Audit Entity. This section will describe the activity's mission or functions that were audited to put the audit objectives in proper perspective.

b. Scope and Methodology. The scope section shall tell the reader what the auditors did or did not do. It should also show when the audit was performed, the period covered by the audit, and extent of compliance with auditing standards. The methodology section should explain the techniques used by the auditor to gather and analyze evidence.

2. RESULTS OF REVIEW. This section will be organized by audit objective as follows:

a. Topic Heading

(1) Objective. Statement of first audit objective.

(2) Results. Observations and conclusions for the audit objective, including synopses of conditions found or positive comments when appropriate.

(3) Recommendations. Suggestions to correct the conditions noted above (when applicable).

b. Topic Heading. Same format as sub-paragraph a above for second audit objective. Additional paragraphs will be added as needed for each additional audit objective.

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3. REQUEST FOR COMMENTS. The report shall include a request for management comments on the conclusions and actions to be taken on the recommendations (where applicable).

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

Note: The above items represent the minimal requirements for a letter report. Additional paragraphs such as "Internal Controls," "Prior Audits," etc. may be added if deemed necessary.

APPENDIX H

POTENTIAL MONETARY BENEFITS

This document states an opinion of audit personnel of the Internal Review Office and does not represent the official position of the U.S. Army Corps of Engineers. This document is exempt from disclosure under the Freedom of Information Act (5 U.S.C. 552(b)(5)). This document should not be released outside of the U.S. Army Corps of Engineers because opinions stated herein, if quoted outside of the proper factual context, could be prejudicial to a full understanding of the subject matters to which these opinions relate.

AUDIT REPORT NO.	TITLE	DATE
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MONETARY BENEFITS 1/

<u>RECOMMENDATIONS</u>	<u>FUNDS PUT TO BETTER USE</u>	<u>QUESTIONED COST</u>

1/ Represents amounts that should accrue from implementation of audit recommendations and that could be reasonably estimated at time of audit considering variable factors and assumptions. Actual benefits to be realized depend on management acceptance of recommended actions, timeliness of actions, and the precise nature and effect of actions taken.

EXPLANATION OF BENEFITS DETERMINATION:

APPENDIX I

QUALITY ASSURANCE PROGRAM
INTERNAL REVIEW AND AUDIT COMPLIANCE OFFICE

POST AUDIT SURVEY

Audit Title: _____

Audit Report No.: _____

Using the scale below, please indicate how strongly you agree or disagree with each item by marking the appropriate category:

5 Strongly agree _____

4 Agree _____

3 Neither agree nor disagree _____

2 Disagree _____

1 Strongly disagree _____

1. At the entrance conference the auditor:
 - explained the purpose of the audit. 1 2 3 4 5
 - discussed the audit objectives. 1 2 3 4 5
 - discussed how long it would take to complete the audit. 1 2 3 4 5
 - solicited areas of concern from management for audit consideration. 1 2 3 4 5

2. The auditor kept me (or my staff) informed on the audit progress. 1 2 3 4 5

(Continued on page 2)

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- | | | | | | |
|------------------------------------------------------------------------------------------------------------------------|---|---|---|---|---|
| 3. The auditor discussed with me (or my staff) all potential findings and recommendations included in the final audit. | 1 | 2 | 3 | 4 | 5 |
| 4. The auditor provided me in a timely manner a copy of the draft report? | 1 | 2 | 3 | 4 | 5 |
| 5. The auditor discussed during the exit conference the results of the audit? | 1 | 2 | 3 | 4 | 5 |
| 6. The final report was issued in a timely manner after the draft report? | 1 | 2 | 3 | 4 | 5 |
| 7. The report was concise and contained enough information to be understood? | 1 | 2 | 3 | 4 | 5 |
| 8. The final audit report clearly: | | | | | |
| - described the findings and causes for the findings? | 1 | 2 | 3 | 4 | 5 |
| - stated specific and realistic recommendations for actions to correct problem areas noted? | 1 | 2 | 3 | 4 | 5 |
| - described management's positions? | 1 | 2 | 3 | 4 | 5 |
| - acknowledged management's corrective actions initiated during the audit? | 1 | 2 | 3 | 4 | 5 |
| 9. The audit should help to improve operations. | 1 | 2 | 3 | 4 | 5 |
| 10. The auditors conducted themselves in a professional and courteous manner during the course of the audit? | 1 | 2 | 3 | 4 | 5 |

COMMENTS: _____

APPENDIX J
FOLLOW-UP REPORT FORMAT

LETTERHEAD

Office Symbol

Date

MEMORANDUM FOR: Commander, U.S. Army Engineer District,

SUBJECT: Audit Report No. _____ Follow-up Review of
the Architect-Engineer Responsibility Management Program

1. This is our report on the subject follow-up review. The review was made during _____ to follow up on Audit Report No. _____ dated _____. We examined documentation and interviewed key personnel to determine whether effective corrective actions had been taken to implement the previous recommendations to improve the Architect-Engineer Responsibility Management Program.

2. The follow-up review disclosed that management personnel have implemented all of the recommendations in the initial report. Therefore, no further actions are required.

I.M. AUDITOR
Chief, Internal Review
and Audit Compliance Office

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AUDIT REPORT NO. _____

FOLLOW-UP REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

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INTERNAL REVIEW OFFICE
U.S. ARMY ENGINEER DISTRICT, _____

FOLLOW-UP REVIEW OF THE ARCHITECT-ENGINEER
RESPONSIBILITY MANAGEMENT PROGRAM

Report No. _____

Date

SUMMARY

1. INTRODUCTION.

a. Objective. This paragraph should state the purpose of the review and identify the audit that follow-up is being performed on.

b. Scope. The scope paragraph shall tell the reader what the auditors did or did not do. It should also include the time period of the follow-up review.

2. OBSERVATIONS AND CONCLUSIONS. The report should contain an overall summary of corrective actions taken and the auditor's evaluation of the adequacy of such actions.

3. MANAGEMENT RESPONSE. A summary of the operating officials' responses to the conclusions cited in paragraph 2 should be included in the report.

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AUDIT REPORT NO. _____

FINDING, RECOMMENDATIONS, MANAGEMENT COMMENTS

AND FOLLOW-UP RESULTS

A - ACCURACY OF REASON CODES

FINDING. Exact wording of Finding paragraph.

RECOMMENDATION A-1. Exact wording.

MANAGEMENT RESPONSE. Exact wording.

FOLLOW-UP RESULTS. Detailed statement of follow-up review actions, including testing procedures; determination of whether the corrective actions have been completed; and if so, evaluation of the effectiveness of such actions.

MANAGEMENT COMMENTS. Use when corrective actions have not been implemented; must contain new target date (if applicable).

INTERNAL REVIEW EVALUATION. Comments to correct misleading management statements, to answer points raised by management, to ensure that IR position is presented clearly, and any other explanations that are required (if applicable).

RECOMMENDATION A-2. Same as indicated for A-1.

The follow-up of several Findings, Recommendations, Management comments will result in alphabetically numbered (i.e. B, C, D...) enclosures prepared in the same format.